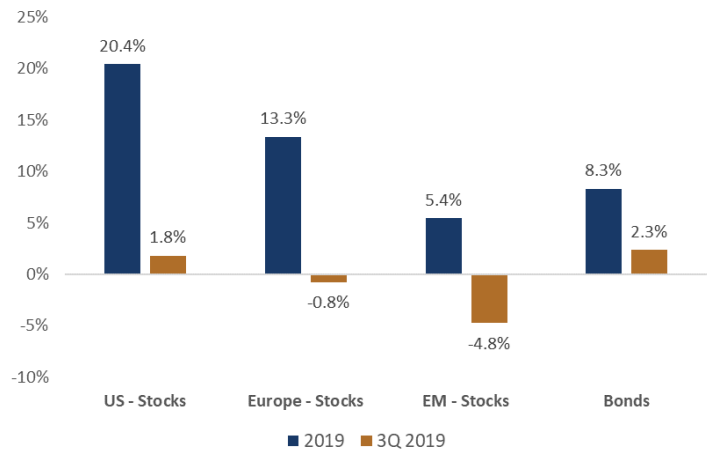


Transformative Platforms – The Next Major Growth Catalyst

“Innovation distinguishes between a leader and a follower.” – Steve Jobs

The S&P 500 achieved its third straight quarter of gains with the year-to-date performance now up approximately 20%. 2019 has the highest returns, through 3 quarters, of any year since 1997. The bond markets have also seen solid returns this year. Both stocks and bonds can thank declining interest rates for their performance. Although returns have been great and the economy is in good shape, there is a wall of worry among investors. To name a few, we are still dealing with the Trade War, a softening global economy and perhaps the elephant in the room, the 2020 election. Although we try to take the middle ground on politics, we know that the next election will be very controversial and has the potential to create a lot of uncertainty, which can be tough on markets.

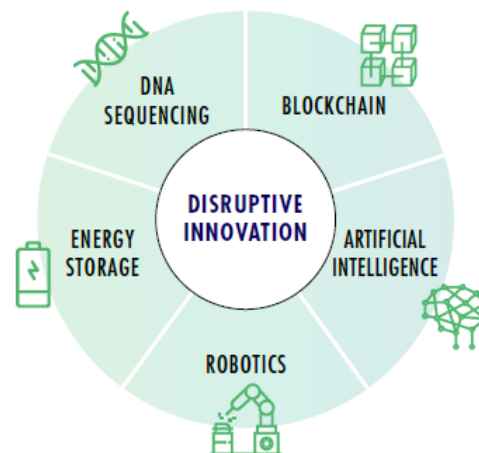


We could write several pages on the current market worries and how to handicap them, however, we are going to focus this newsletter on some exciting innovation and how to profit from the transformative technologies that will positively impact our lives over the next decade.

Transformational Market Catalysts

As investors continue to grapple with the near-term issues impacting global markets, we believe there is disruptive innovation happening simultaneously and could be the transformative innovation platforms that can drive the economy out of a potential recession and power growth for many years in the future. The key areas of innovation are:

- **Artificial Intelligence** – This is already happening all around us and probably goes unnoticed in many circumstances. Computational capabilities continue to expand rapidly, and systems and software powered by data will lead problem solving,



previously deemed unsolvable. AI has the potential to transform not only retail, media and telecom, but all sectors of the economy, as did the internet over the past 20 years.

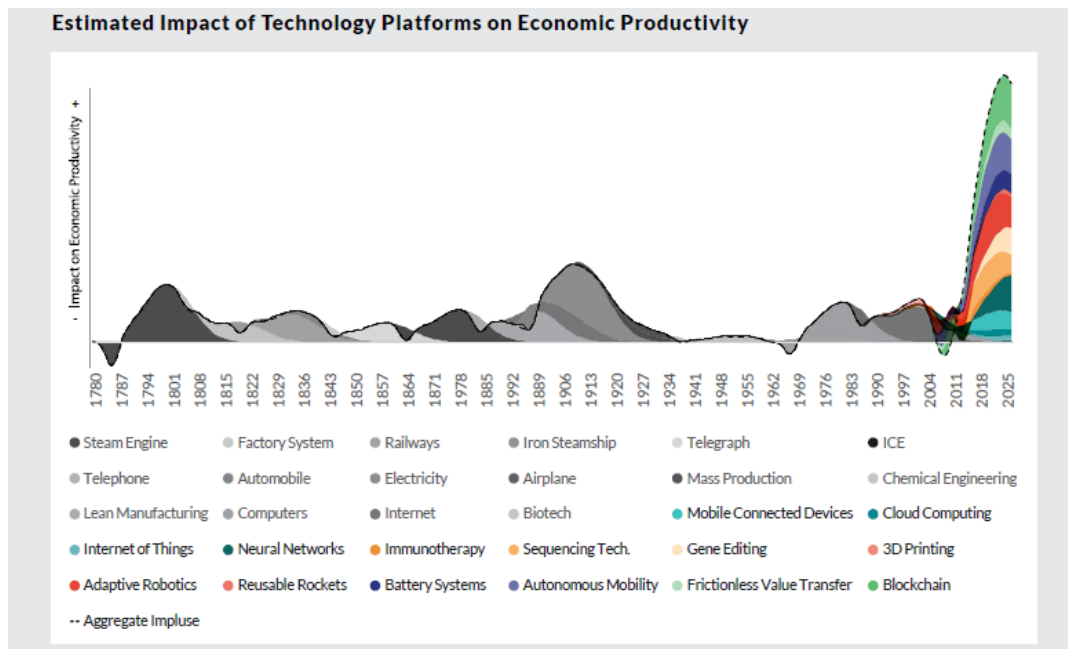
- ▣ **Robotics** – Advances in software and sensors should enable robots to operate alongside humans in all types of environments. Robots costs will continue to decline and if their capabilities increase as anticipated, robots could transform businesses that rely on physical processes and workflows. In transportation, robots will be able to move people and packages, operating on top of legacy transportation infrastructure. Companies in the automotive, logistics, retail and insurance sectors that do not or cannot adapt to the new world order likely will become severely impacted.
- ▣ **Energy Storage** - Declining battery costs will continue to increase the demand for electrical energy, making electric cars price competitive in the next 3 years. Although the long-term dependence on fossil fuels should decrease, we may see peak demand in oil as the country's infrastructure will have to evolve to accommodate high electricity-consuming business models.
- ▣ **DNA sequencing** - Costs have fallen more than a million-fold during the past 15 years. Efficiency of research and development in biotech will expand and scientists will continue to unlock the codes to life and death. Gene-editing could transform chronic disease into curable conditions, changing the economics of therapy and impacting legacy pharmaceutical companies. These technologies should extend to agriculture and the material sector.
- ▣ **Blockchain** - Blockchain is a shared, distributed database of transactions among parties that is designed to increase transparency, security, and efficiency. Blockchain could disrupt markets and existing participants, while in others, it can drive cost savings by reducing labor-intensive processes and eliminating duplicate effort. Blockchain has the potential to streamline existing markets such as real estate by reducing transaction costs in real estate title insurance and significantly altering the financial industry by driving greater efficiencies in the U.S. cash equities market, primarily through streamlining the post-trade settlement and clearing processes.

As can be seen from the chart on the next page, we may already be in one of the biggest cycles for economic productivity in history. As investors, how do we participate in this exciting growth?

1. Own Large Stocks – Throughout the various sectors of the market, the largest companies have the most resources and research capabilities to take advantages of the technological disruption. Amazon and Google are at the forefront of some of the technologies. The same is true of the large players in Energy, Health Care and Finance. Shareholders of these companies should be rewarded over time with ever increasing earning per share.
2. Own the market – By just staying invested, market participants will be rewarded over time. Successful companies will become larger percentages of their respective indexes and new public

companies that are successful will be incorporated to the indexes as older companies fall out of favor.

3. Specific Index Funds – There are ways to purchase each of the technologies mentioned above and ways to purchase them in aggregate. For example, there is an index that owns all of the public companies in the Energy Storage space. Either way, we believe that diversification is the key and trying to pick the single winner is a fool's game.
4. Private Investments – As the number of public companies have been cut in half over the last 15 years, more and more companies are staying private for much longer. For certain accredited investors, the private markets can be an interesting alternative to the public market. Investors have the option of owning the stock in the company or the debt, which is similar to acting as the bank for these companies' growth needs.



Thanks for reading and as always, please don't hesitate to contact us with any changes to your personal situation, investment goals or risk tolerance. As we continue to better serve our clients, if you would like to change how you are receiving our correspondence, let us know by either emailing or calling us, 804-325-1450.

Sincerely,

Canal Capital Management

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